



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 06-6

March 15, 2006

TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE
BANK, AND TO BANKING ORGANIZATIONS SUPERVISED BY THE FEDERAL
RESERVE

SUBJECT: Imposition of Special Measures against Commercial Bank of Syria

The Board of Governors of the Federal Reserve System is issuing this SR letter to advise banking organizations under its supervision of new obligations relating to Commercial Bank of Syria imposed by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). On March 15, 2006, FinCEN issued a final rule that imposes special measures under section 311 of the USA PATRIOT Act (31 U.S.C. 5318A) against Commercial Bank of Syria.¹ These special measures apply to Commercial Bank of Syria and any of its branches, offices and subsidiaries in Syria or in any other jurisdiction. One such subsidiary, Syrian Lebanese Commercial Bank, is specifically identified in the rule. This final rule is effective as of April 14, 2006; it can be found at http://www.fincen.gov/reg_section311.html.

The final rule prohibits all covered financial institutions² from opening or maintaining a correspondent account in the United States for, or on behalf of, Commercial Bank of Syria and its branches, offices, and subsidiaries. Covered financial institutions are also required to apply special due diligence to their correspondent accounts for foreign banks that is reasonably designed to guard against the indirect use of the account by Commercial Bank of Syria.

At a minimum, special due diligence under the final rule must include two elements:

- First, a covered financial institution must notify its correspondent account holders that the account may not be used to provide Commercial Bank of Syria with

access to the covered financial institution. A sample notice is provided in the preamble to the final rule. The final rule requires a covered financial institution to document its compliance with this notice requirement.

- Second, a covered financial institution must take reasonable steps to identify any indirect use of its correspondent accounts by Commercial Bank of Syria, to the extent that such indirect use can be determined from transactional records maintained in its normal course of business. For example, a covered financial institution is expected to apply an appropriate screening mechanism to be able to identify a funds transfer order that, on its face, lists Commercial Bank of Syria as the originator's or beneficiary's financial institution, or otherwise references it in a manner detectable under the financial institution's screening procedures.

The final rule states that a covered financial institution should take a risk-based approach (based on factors such as the type of services it offers and the geographic locations of its correspondent account holders) when deciding what, if any, additional due diligence measures it adopts to guard against the indirect use of its correspondent accounts by Commercial Bank of Syria. Pursuant to the final rule, a covered financial institution that obtains knowledge that its correspondent account is being used by a foreign bank to provide indirect access to Commercial Bank of Syria is expected to take all appropriate steps to prevent such indirect access, including, when necessary, terminating the correspondent account.

The final rule does not require a Suspicious Activity Report to be filed based solely on the fact that a transaction involves Commercial Bank of Syria. However, a banking organization should determine whether the transaction would otherwise be reportable under suspicious activity reporting rules.³

Reserve Banks are asked to distribute this SR letter to the domestic and foreign banking organizations supervised by the Federal Reserve as well as to supervisory and examination staff. For questions regarding these special measures, please contact Bridget M. Neill, Assistant Director, (202) 452-5235 or Suzanne Williams, Manager, (202) 452-3513.

Richard Spillenkothen
Director

Notes:

1. For background information on section 311, refer to the "Special Measures" section of the Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual, available at http://www.ffiec.gov/bsa_aml_infobase/.
2. The final rule is codified at 31 CFR § 103.188. Under the rule, covered financial institutions comprise a wide variety of entities, including certain banking

organizations supervised by the Federal Reserve such as state member banks, Edge and agreement corporations, and state-licensed U.S. agencies or branches of foreign banks.

3. See e.g. 31 CFR § 103.18, 12 CFR § 208.62, 12 CFR § 211.5(k), and 12 CFR § 211.24(f).